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## DIRECTORATE OF INTELLIGENCE

16 April 1985

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Japan: A New Focus on Research [redacted]

### Summary

Japan is confronted with growing difficulty in gaining access to basic research conducted abroad just as its industrial structure is becoming increasingly knowledge-intensive. In an effort to solve this problem and to maintain its bureaucratic influence in determining new directions for Japanese industry, the Ministry of International Trade and Industry (MITI) has drafted a law that would promote research by establishing an R&D center. One goal of the center will be to encourage US and other foreign participation in basic research projects. The Ministry of Posts and Telecommunications--an increasingly aggressive bureaucratic actor--has begun to assert its own policymaking authority over new high-technology sectors, however, by proposing legislation to counter the Trade Ministry's. Although the Cabinet approved a draft law in mid-February that consolidates the two bills, ongoing turf battles could

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delay passage during the current Diet session. Even if the law is passed this year, continued bureaucratic bickering, competition for funds from other ministries, and uncertainty among Japan's industrial leaders about their role in a national R&D effort could delay implementation.

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### Motivations

MITI sees an increasing need to encourage and support research and development because the Japanese are facing more difficulty in gaining access to basic research and want to begin work in new areas where research has not yet been done.

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Access to US R&D

programs has long enabled the Japanese to concentrate on development and application research with quicker and more assured commercial returns. Japanese corporations have traditionally committed few, if any, resources to research that does not contribute directly to development and commercialization of new products. Greater attention to high-risk, basic research is essential, however, to Japan's competitive position in high-technology trade.

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### A New Research Center

In response to this need--and in an effort to maintain its traditional bureaucratic role as booster of Japanese business--MITI has proposed legislation to establish a research and development center. The center would promote R&D in new materials, biotechnology, and electronics; encourage domestic cooperation in research and development among industry, academia, and the government; and support international cooperation in research. To accomplish those goals the new organization would:

- o Subsidize research and development of advanced technologies, using funds from the national budget, the Japan Development Bank, and the private sector.
- o Grant joint patent rights to Japanese enterprises and foreign participants engaged in cooperative research.

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- o Recruit foreign researchers who specialize in advanced, core technologies.
- o Create a data bank for more effective use of technological data and evaluation of materials.
- o Establish testing standards for new materials technologies.

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MITI probably hopes the center will enable it to maintain access to funds in an era of tight national budgets. MITI's budget from the general account for technology development, for example, decreased by 6.9 percent in 1984 and by 20 percent over the previous three years.

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[redacted] JFY 1985 (1 April - 31 March) budget allocations may be insufficient to support 5th generation and supercomputer projects. The new center would provide funds for research, allowing the Ministry to keep current projects on schedule and add new ones.

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#### The US Angle

By calling for foreign participation in the center, MITI probably hopes to achieve two goals: facilitate continued acquisition of US and other foreign technology and ward off international criticism of the new center. MITI has traditionally been in the forefront of fostering and coordinating acquisition of foreign technology for Japanese firms and clearly sees US participation in research projects as a means to secure access to technologies being developed in the United States. In the past, patents secured from research projects supported with government grants were owned by the Japanese Government and were not necessarily made available to foreign firms. MITI probably hopes its proposed formula to share patents, free of charge, with foreign participants in joint projects will encourage US participation in the center's projects.

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An experienced participant in the international arena, MITI recognizes that Washington and other foreign observers may view the center as offering an unfair advantage to Japanese industries benefiting from targeted research. To forestall foreign criticism, MITI will argue that its proposal in support of R&D differs little from what is being promoted in the United

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States by the National Bureau of Standards or the National Science Foundation [Redacted] But in fact, MITI probably will not push for foreign participation in fields where Japan has an advantage. [Redacted]

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### Prospects

Despite MITI's past supremacy in identifying new directions for Japanese industry, its proposal for an R&D center has fallen victim to a growing rivalry with a newly important bureaucratic actor--the Ministry of Posts and Telecommunications (MPT). In a move to exercise its influence over Japan's information and communications industries, MPT developed its own proposal for an R&D organization late last year.

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On 16 February the Cabinet approved a draft law establishing the center and a compromise plan setting general guidelines for its operation and funding. Under the plan MPT will supervise activities related to telecommunications, broadcast, and radio wave technologies, while MITI will direct work related to mining and manufacturing technologies. Total

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A unique element of the proposed funding is Japan Development Bank participation. The current Japan Development Bank charter limits loans to capital investments, but in December 1984 the Finance Ministry submitted legislation designed to expand the bank's investment function. The new law, which the Diet will probably approve this spring, allows the use of Japan Development Bank funds to finance salaries of research personnel and costs of R&D projects approved by the Ministry of Finance.

[Redacted]

Although the Cabinet has approved the draft law establishing the consolidated center, battles between MITI and MPT over details of the budget, staffing patterns, and ordinances for the center could delay passage of the new law during the current Diet session. If the law is passed, continuing differences between the two ministries will have to be resolved before it can be implemented. Operation of the center could be further complicated by participation of other

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bureaucratic elements. The prospect of additional funding for high-technology programs has prompted interest in the new center by other ministries, including Health and Welfare, [redacted] Transportation, Construction, and Agriculture. [redacted]

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Private industry, however, is not particularly enthusiastic about the new center. Members of Keidanren--Japan's most influential business organization--are concerned that the private sector will be expected to fund an increasing share of the center's budget. Keidanren members already are expected to provide \$12 million for the new center, but they have not been consulted or made a party to the negotiations on its establishment. Keidanren has questioned the process by which joint R&D projects will be selected for investment and financing, the extent of technology sharing that would be required in joint research with potential competitors, and the degree of MITI control over research and patents. Finally, Keidanren fears that use of Japan Development Bank funds for the new center will reduce the amount available for other, more important loan programs. [redacted]

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